

Bondholders Say China Owes \$2.3 Billion

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Two holders of bonds the Chinese government issued in 1913 are suing in New York federal court for \$2.3 billion to force the People's Republic of China to make good on the debt.

Plaintiffs Gloria Bolanos Pons and Aitor Rodriguez Soria contend in the U.S. District Court for the Southern District of New York that the Chinese government is obligated to pay the debt as the successor government to the bonds issuer.

Pons and Soria claim that in 1913 the Chinese government entered into a loan agreement with several banks to borrow £25 million British pounds. Nonparties Hong Kong & Shanghai Banking Corp., Deutsch-Asiatische Bank, Banque De L'Indo-Chine, Russo-Asiatic Bank and Yokohama Specie Bank agreed to fund the loan.

The bonds were secured by revenue the Chinese government was supposed to obtain by imposing a tax, the complaint says.

Once the bonds were issued, several were sold in the United States, and the Chinese government made interest payments in the United States, according to the plaintiffs.

Although China ceased making interest payments in 1939, the plaintiffs say, the Chinese government accepted liability for the debt in 1986 and subsequently paid bondholders who lived in Britain.

Pons and Soria, who hold a total of 103 bonds, assert that the People's Republic of China now refuses to make payments on the bonds despite repeated demands.

The refusal is improper, the plaintiffs say, because the bonds provide that all holders are to be paid pro rata.

Pons and Soria currently value the bonds at \$2.3 billion and assert that the Chinese government is holding the tax revenue in a constructive trust for their benefit. They are seeking a District Court order directing the defendant to pay the debt.

Pons et al. v. People's Republic of China, No. 06-CV-13221, complaint filed (S.D.N.Y. Nov. 15, 2006).

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